Application of
South Carolina Electric & Gas Company
for approval of an increase in its retail electric rates and charges.

Docket No. 2002-223-E

Testimony of
Thomas L. Ellison
Audit Department

Public Service Commission of South Carolina

Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A. My name is Thomas L. Ellison. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina as an Audit Manager I.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR EXPERIENCE?

A. I received a B.S. Degree in Business Administration with a major in Accounting from the University of South Carolina in 1974. I am a Certified Public Accountant, licensed in the State of South Carolina. Additionally, I am a Certified Internal Auditor. I am a member of the American Institute of Certified Public Accountants, the South Carolina Association of Certified Public Accountants, and the Institute of Internal Auditors. I have twenty-eight years of experience in the auditing profession. Twenty-one of those years have involved the ratemaking process.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTH CAROLINA ELECTRIC AND GAS COMPANY?

A. The purpose of my testimony is to set forth in summary form Staff's findings and recommendations resulting from our examination concerning this docket. These findings and recommendations are set forth in the report of the Audit Department with attached exhibits.

Q. I SHOW YOU THIS REPORT WITH ITS ATTACHED EXHIBITS, ENTITLED "REPORT OF THE AUDIT DEPARTMENT, THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA, DOCKET NO. 2002-223-E, SOUTH CAROLINA ELECTRIC AND GAS COMPANY", DID YOU AND THE AUDIT STAFF PREPARE THIS DOCUMENT?

A. Yes, the report was prepared by other members of the Audit Department Staff and me.

Q. (MARK FOR IDENTIFICATION). WOULD YOU PLEASE SUMMARIZE THE CONTENTS OF THIS REPORT?

A. As outlined in the report's index, pages 1 through 5 contain the Staff's analysis of the report, with the remaining pages 6 through 32 containing the Audit Staff's supporting exhibits. The major part of my testimony will refer to Audit Exhibit A, entitled <u>Operating Experience, Rate Base and Rates of Return.</u> Such Exhibit, as all other Audit Staff exhibits, utilizes a test year ending March 31, 2002.

Q. DO YOU HAVE ANY FURTHER EXPLANATION OF EXHIBIT A?

A. Yes, I do. The Staff prepared the exhibit in compliance with the Commission's standard procedures as to calculating income and rate base for electric utilities. A brief description of Exhibit A is as follows:

Column (1): Presents the Company's total electric operations per the Company's filing as of the end of the test period under review. Special emphasis is placed on net operating income for return, rate base and rate of return on rate base.

Column (2): Presents total electric accounting and pro forma adjustments per the Staff for the period under review.

Column (3): This column details the total electric operations of the Company as adjusted by the Staff prior to the effect of the proposed increase.

Column (4): This column presents the Company’s retail electric operations per the Company’s cost of service study used in the Company’s filing for the test year under review, March 31, 2002.

Column (5): The Staff’s retail accounting and pro forma adjustments are detailed in this column. Such adjustments were made by the Staff in order to show both a normalized and going forward level of the Company’s per book retail operations during the test year. These adjustments are described in Staff’s Audit Exhibit A-1, pages 7 through 22 of the Staff’s report.

Column (6): The Staff’s computation of the Company’s retail normalized test year after giving effect for the accounting and pro forma adjustments is detailed in this column.

Column (7): This column presents the proposed increase in retail rates and charges as computed by the

Commission's Utilities Department Staff and the resulting adjustments to expenses.

Column (8): This column presents the Company's normalized test year retail operations after including the proposed increase.

Q. WOULD YOU PLEASE ELABORATE ON THE CALCULATIONS IN EXHIBIT A?

A. As shown in column (1), using total electric operations per the Company's filing, the Staff computed net operating income for return of $287,720,000. The Staff computed a rate base of $3,214,281,000 for the Company's total electric operations. The Staff computed the rate of return on rate base to be 8.95% on total electric operations.

Shown in Column (2) are the accounting and pro forma adjustments proposed by the Staff on a total electric basis.

Column (3) presents the Company's as adjusted total electric operations. The Staff computed net operating income for return of $264,570,000. The Staff computed the adjusted total electric rate base to be $3,358,184,000. The Staff computed the as adjusted rate of return on such rate base to be 7.88%.

In Column (4) the Audit Staff computed the Company's total retail operations based on the cost of service study recommended by the Staff's Utilities Department.

Net operating income for return was computed to be $281,544,000 on a retail basis and retail rate base was computed to be $3,099,899,000. The Staff computed the return on retail rate base to be 9.08% prior to making accounting and pro forma adjustments.

Column (5) presents the Staff's accounting and pro forma adjustments on a retail basis. Such accounting and pro forma adjustments are described in Staff's Audit Exhibit A-1.

Column (6) presents the Company's retail operations as adjusted by the Staff. The Staff calculated net operating income for return of $258,625,000 on an as adjusted retail basis. The as adjusted retail rate base was computed to be $3,203,046,000. The Staff computed the as adjusted rate of return on retail rate base to be 8.07%.

Column (7) presents the Staff's computation of the Company's net proposed increase of $104,714,000. The increase consists of $112,795,000 for the proposed increase and an adjustment to reduce the proposed increase by $8,081,000 for fixed capacity charges that the Company will incur for gas service to the Urquhart facility.

Column (8) presents the Company's retail operations as adjusted to normalize the test year and on a pro forma basis after the effect of the proposed increase in retail rates. The Staff computed retail net operating income for return of $328,717,000 and a retail rate base of $3,203,046,000. The Staff computed a rate of return on retail rate base of 10.26% after the effect of the proposed increase.

Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE OTHER ACCOUNTING EXHIBITS IN THE STAFF'S REPORT?

A. Audit Exhibit A-1 details the total company and the retail electric accounting and pro forma adjustments made by the Staff and/or the Company. Company and Staff adjustments are compared in this exhibit with a brief description of each adjustment.

Audit Exhibit A-2 details the Staff's computation of the Company's customer growth. The Staff performed the growth calculations using the formula method as detailed in Exhibit A-2. The Staff used end of period customers as of June 30, 2002 in the computation because the Company made accounting and pro forma adjustments beyond the end of the test year.

Audit Exhibit A-3 details the Staff's computation of total working capital using the formula method. The Staff considers the formula method to be appropriate for use in this case. The Staff's formula uses a forty-five day cash working capital allowance. The 45 days is typical of an electric utility’s billing and collection cycle. The formula approach provides a reasonable and unbiased estimate of the Company's cash working capital requirements. Also, the formula approach is justified in this case because it is simple to use and less costly than a lead lag study.

Audit Exhibit A-4 provides a schedule of deferred debits and credits that are included as a component of rate base.

Audit Exhibit A-5 provides a calculation of the Company's return on common equity on a retail basis before and after the effect of the proposed increase. The rate base, as shown on Exhibit A, is allocated among the various classes of debt and equity, excluding short-term debt, according to their respective ratios as computed using the Company's total capital structure as of September 30, 2002 adjusted for the issuance of $150,000,000 in common stock during October 2002. The Staff considered the stock issuance to be a known and measurable change to the Company's capital structure. The amount of retail as adjusted net income for return needed to cover embedded cost rates on long-term debt of 7.23% was computed by Staff to be $100,529,000. The amount of as adjusted retail income for return needed to cover embedded cost rates on preferred stock of 6.81% was computed by the Staff to be $9,619,000. The as adjusted retail rate of return on common equity was computed by the Staff to be 8.88%. The as adjusted overall rate of return was computed to be 8.07%. Such overall return equals the rate of return on rate base shown on Staff's Exhibit A. After the proposed retail increase, the return on common equity was computed to be 13.08%. The overall rate of return was computed to be 10.26% after the effects of the proposed increase. Such overall return equals the rate of return shown on Staff's Exhibit A after the proposed retail rate increase.

Audit Exhibit A-6 gives a reconciliation of the differences between the Company's filing and the Staff's presentation of financial data leading to net operating income for return.

Audit Exhibit A-7 gives a reconciliation of the rate base contained in the Company's application to the rate base computed by the Staff on Exhibit A.

Audit Exhibit A-8 provides a listing of real estate transactions for the year ended December 31, 2001.

Audit Exhibit A-9 presents the Company's condensed consolidated income statement for the test year ended March 31, 2002.

Audit Exhibit A-10 presents the Company's condensed consolidated balance sheet as of the test year ended March 31, 2002.

Q. WOULD YOU PLEASE EXPLAIN THE ACCOUNTING AND PRO FORMA ADJUSTMENTS IN AUDIT EXHIBIT A-1?

A. Yes, the adjustments marked with an (A) are the responsibility of the Audit Department and the ones marked with a (U) are the responsibility of the Utilities Department. The adjustments that contain both an (A) and a (U) denote partial responsibility of both departments. My testimony will address those adjustments designated as (A) that differ from the Company's adjustments. The Audit Staff computed each adjustment on a total company basis and the Utilities Department Staff provided the retail amount for use in Audit Exhibit A-1.

Adjustment Number 1 - The Staff noticed that the Company's proposal included lowering total electric gross revenue by $62,621,000. The Staff is proposing to lower other taxes by $258,000 on a total company basis to remove the gross receipts taxes applicable to such revenue.

Adjustment Number 2 - The Staff increased other taxes based on the increase in gross revenue associated with sale for resale contracts. The adjustment to other taxes for sale for resale contracts in the amount of $44,000 increased total electric expenses for gross receipts taxes but had no effect on the Company's retail operations.

Adjustment Number 5 - The Company removed plant in service and accumulated depreciation associated with employee clubs using the March 31, 2002 account balances. The Staff removed plant in service of $2,728,182 and accumulated depreciation of $925,992 using account balances as of June 30, 2002. The Staff used June 30, 2002 levels because a separate adjustment was made to update total retail plant in service, accumulated depreciation and construction work in progress to include balances as of that date. Therefore, the Staff needed to remove those items as of June 30, 2002. The Staff removed depreciation expense associated with employee clubs in the amount of $123,377 based on plant balances at June 30, 2002. The Company and the Staff annualized depreciation expense using June 30, 2002 plant balances in a separate adjustment. The Staff found three projects in construction work in progress (CWIP) at June 30, 2002 for employee clubs. Staff lowered rate base by $320,743 to remove such projects from CWIP.

Adjustment Number 9 - The Staff agreed with the Company on the basic wage increase of $762,128. The Staff did not agree with the increase in employee benefits of $205,755. The Company's adjustment was based on an employee benefits rate of 27%. The 27% was a composite rate developed using employee benefits. The Staff based its adjustment on employee benefits that actually fluctuate with payroll. The benefits that fluctuate with payroll were determined by the Staff to be long-term disability, short-term disability and the Company's stock purchase savings program. The test year cost for the above benefits totaled $16,341,615. Total payroll for the test year was $106,517,867. The Staff calculated the benefits as a percentage of payroll to arrive at 15.341666%. Staff multiplied the 15.341666% times the increase in payroll of $762,128 to arrive at an adjustment of $116,923 to employee benefits on a total company basis. The Staff added the wage increase of $762,128 and the employee benefits increase of $116,923 to arrive at the total company operating and maintenance (O&M) expense increase of $879,051. The Staff applied the FICA rate of 7.65% to the increase in wages of $762,128 to arrive at a payroll tax adjustment of $58,303 on a total company basis. The Staff's Utilities Department determined the allocation to retail operations to be an increase to O&M expense of $841,000 and an increase to other taxes of $55,000.

Adjustment Number 10 – The Company proposed to increase O&M expenses to include pro forma employee incentive pay increases. The Staff did not include the adjustment because employee incentive pay increases were not paid out during the test year. Employee goals were not met during the test year causing the Company not to make payment in accordance with the terms of the plan. Incentive compensation payments can be non-recurring expenses depending on whether or not certain goals are met by the Company and/or the potential recipient. The Staff included an increase to O&M expenses of $1,638,176 and an increase to payroll taxes of $129,564 on a total company basis to remove a negative per book balance that was related to incentive compensation. The Company had accrued amounts into its expense accounts during the year 2001 in anticipation of paying out incentive compensation payments. The Company reversed such accruals during the test year when it became apparent that incentive compensation payments would not be paid. The reversals made during the test year included January, February and March, 2001 which are periods prior to the test year. The Staff proposes to remove the reversals associated with those periods prior to the test year. The Staff's adjustment restores the expenses associated with incentive compensation and its related payroll taxes to a zero balance.

Adjustment Number 12 - In adjustment number 12, the Company rounded the amount contained in the actuarial study for Post Employment Benefits other than Pensions (OPEB's) from $20,902,727 to $21,000,000 before applying the electric O&M percentage of 44.836403%. The Staff did not round the actuarial study amount prior to performing the calculation. The Staff's adjustment on a total company basis was computed to be $109,539. The Staff increased the unfunded OPEB liability that should be subtracted from rate base by the amount of the adjustment net of income taxes.

Adjustment Number 13 – The Company proposed an adjustment to increase total electric plant in service by $5,329,698 to reflect the June 30, 2002 balance. The Staff agreed with the concept of the adjustment because the Staff considered it to be a known and measurable change. The Staff's review of the adjustment found that it included $9,921,060 in Urquhart repowering project costs. Such costs are included in the Urquhart repowering adjustment. Therefore, the Staff excluded the $9,921,060 to arrive at an adjustment to decrease plant in service at June 30, 2002 by $4,591,362 on a total company basis. Both the Staff and the Company are proposing to update Construction Work in Progress (CWIP) to reflect balances at June 30, 2002. The Staff recommends that the Company not be allowed to continue to accrue an allowance for funds used during construction (AFUDC) on CWIP projects at the level that is included in rate base as a result of this proceeding. It is necessary to cease the accrual of AFUDC because the Company will now be earning a return on the level of CWIP that is included in rate base.

Adjustment Number 15 - The Staff and the Company both propose to annualize depreciation expense based on plant in service at June 30, 2002 and currently approved depreciation rates. The Utilities Department reviewed the depreciation rates that the Company proposed to use in this adjustment. The Audit Staff revised steam production plant to exclude $9,921,060 associated with the Urquhart repowering project and to include $37,179 reclassified from steam production - Cope. The net amount of $9,883,881 was excluded prior to annualizing depreciation expense for steam production plant. The Staff applied a depreciation rate of 4.21% to such excluded plant to arrive at a reduction in the adjustment of $416,111. The Audit Staff revised steam production plant - Cope to exclude $37,179 that was reclassified to steam production plant. The Staff applied a depreciation rate of 3.15% to such excluded plant to lower proposed depreciation expense by an additional $1,171. The Staff corrected a $5,524 understatement of common plant in the Company's depreciation annualization computation. The Staff applied the common plant allocation factor applicable to electric operations of 89.94% to get a depreciable amount of $4,968. The common plant depreciation rate of 4.78% was applied to the $4,968 to arrive at additional depreciation expense of $237. The Staff used the amount of depreciation expense contained on the Company's books of $132,736,612 in arriving at its adjustment. The

Company used $132,744,086 which contained amounts that were reported incorrectly. The Staff increased depreciation expense by $7,474 as a result of using the correct book balance. The Company proposed an adjustment of $692,256 to increase depreciation expense on a total company basis. The Company's proposed retail amount is $723,000. The Staff proposed an adjustment of $282,685 to increase depreciation expense on a total company basis. The amount allocated to retail is $296,000. The difference of $409,571 is summarized above (-$416,111 - $1,171 + $237 + $7,474). The Staff used the full increase in depreciation expense of $282,685 as an increase to accumulated depreciation on a total company basis and $294,000 on a retail basis. The Company increased the balance in accumulated depreciation by one-half of the amount of their depreciation expense adjustment. The proper accounting entry to record depreciation expense is to debit the expense account and to credit the reserve account in the same amount. The Staff recommends that a full rate base offset be used since that represents the amount being recovered above the line in cost of service.

<u>Adjustment Number 16 -</u> The Company and the Staff both proposed to increase depreciation expenses based on a new depreciation rate study. The Staff's Utilities Department reviewed the depreciation rates contained in

the new study. The Staff's adjustment increases depreciation expense by $13,217,688 on a total company basis and $12,383,000 on a retail basis. The Company's adjustment increases depreciation expense by $13,288,667 on a total company basis and $12,450,000 on a retail basis. The $70,979 difference between the Company and the Staff can be summarized by using the same plant balance differences discussed in adjustment number 15 above and applying the difference in depreciation rates. The difference in depreciation rates for the steam production plant category is 0.72% (proposed rate of 4.93% and present rate of 4.21%). Applying such percentage to Staff's difference of $9,883,881 associated with Urquhart repowering and reclassifications results in a difference of minus $71,164. The difference in the depreciation rates for steam production – Cope category is 0.48% (proposed rate of 3.63% and present rate of 3.15%). Applying such percentage to Staff's plant difference of $37,179 associated with reclassifications results in a difference of minus $178. The difference in common plant depreciation rates is 7.30% (proposed rate of 12.08% and present rate of 4.78%). The Staff applied the factor difference to the increase in allocated common plant of $4,968 which results in an increase to depreciation expense of $363. The Staff increased accumulated depreciation by the full amount of the depreciation expense adjustment for the same reasons as cited in adjustment number 15 above. The Company increased accumulated depreciation by one-half of their adjustment to depreciation expense.

Adjustment Number 18 - The Company proposes to increase property taxes by $563,456 on a total company basis using plant additions. The proposed retail amount increased property taxes by $540,000. The Staff annualized property taxes based on as adjusted net plant in service minus the Columbia Franchise Agreement net of hydro and minus net plant associated with the Urquhart repowering project. The Staff lowered property tax expense by $914,366 on a total company basis. The amount on a retail basis is $877,000.

Adjustment Number 19 – The adjustment involves the Urquhart repowering project. The Staff updated expenses associated with Urquhart maintenance agreements, chemicals and gases and general maintenance to $807,150 based on long term service agreements and other detailed information. The $807,150 was added to firm gas capacity charges of $8,510,386 to arrive at total O&M expenses of $9,317,536 on a total company basis for Urquhart. The Staff increased other taxes by $3,085,175 on a total company basis and $2,892,000 on a retail basis to reflect increased property taxes. The Staff used the total cost of Urquhart of $248,176,336 minus pollution control facilities of $15,503,514 to arrive at the gross amount subject to assessment of $232,672,822. The Staff then subtracted accumulated depreciation through December 31, 2002 of $5,429,033 to arrive at a net amount subject to assessment of $227,243,789. Based on an assessment ratio of 10.50% the estimated assessment was computed to be $23,860,598. The millage rate of 0.1293 was applied to the $23,860,598 to arrive at a property tax increase of $3,085,175. The retail amount was computed by the Utilities Department to be $2,892,000. The Staff included the full amount of depreciation expense in accumulated depreciation for the same reasons as those given in adjustment number 15.

<u>Adjustment Number 20 –</u> The Staff has no differences with the Company in this adjustment, but I would like to reiterate that the Staff has included the adjustment subject to verification that the Company has spent the additional $128,083,000 that they are seeking to include in rate base in this proceeding. The Staff recommends that the Company not be allowed to continue to accrue an allowance for funds used during construction (AFUDC) on the Jasper amounts and any other CWIP projects at the level included in rate base as a result of this proceeding. It is necessary to cease the accrual of

AFUDC because the Company will now be earning a return on the level of CWIP that is included in rate base.

Adjustment Number 22 – The Company is proposing to amortize its estimated cost in the GridSouth Regional Transmission Organization (RTO) over a five-year period. The Staff examined $12,177,881 in costs associated with the Company's investment in the GridSouth RTO as of October 2002. The Company's costs include company labor, the pensions, benefits and taxes associated with such labor, outside services, travel, meals, interest, etc. The Company has also paid amounts to Duke Electric Transmission to true up funding for the RTO. The Staff proposes to amortize the total amount invested by the Company in the RTO over a five-year period. The Staff recommends excluding interest expense from the bills that the Staff examined. Interest expense amounted to $711,401 on a total company basis. The Staff's adjustment amortizes $11,466,480 ($12,177,881 minus $711,401) over five years for an increase to O&M expense of $2,293,296. The Company proposed to include the average unamortized investment balance in the RTO in rate base. The Staff increased rate base by $5,733,240.

Adjustment Number 24 – The Company is proposing to include the effects of the Columbia Franchise Agreement in this case. The thirty-year franchise was entered into after the test year ended. The Staff computed the total cost of the franchise agreement to be $40,316,193 on a total company basis. The amount includes $35,290,000 in cash payments and $5,026,193 in net property, plant and equipment that was transferred to the City of Columbia, South Carolina. Assets that were removed from the Company's electric operations included Hydro facilities of $7,877,858, general plant of $80,840 and common plant of $507,226 for a total of $8,465,924. The Staff subtracted such assets from the cost of the franchise to arrive at a net cost of $31,850,269. The net cost of the franchise was placed into plant in service. The Staff proposes to amortize the total cost of the franchise agreement of $40,316,193 over the thirty-year franchise period. The resulting annual amount to be added to amortization expense was computed by the Staff to be $1,343,873 per year. The Staff computed the decrease in annual depreciation expenses associated with the electric company assets that were transferred to the City to be $492,389 per year. The Staff increased annual depreciation expense for the net amount of $851,484 on a total electric basis ($1,343,873 - $492,389). The Staff adjusted accumulated depreciation for the increase in amortization expense of $851,484 which had the effect of lowering rate base. The Staff removed accumulated depreciation in the amount of $5,816,797 that was associated with electric assets that were transferred to the City. The net adjustment lowered accumulated depreciation by $4,965,313 which had the effect of increasing rate base. The Staff lowered O&M expenses by $408,106 to remove expenses associated with operating and maintaining the hydro facilities and other assets that were transferred to the City. The Staff lowered other taxes for property taxes in the amount of $87,965 associated with the assets that were transferred to the City. The Company has agreed to pay the City $35,290,000 in cash payments as part of the cost of the franchise. Staff has verified that the Company has paid $3,750,000 to the City in connection with the agreement. The Company is scheduled to make another $3,750,000 payment to the City by January 15, 2003. The Staff will be able to verify the second payment prior to rates going into effect. Therefore, the Staff proposes to reduce rate base by the payments to be made to the City after January 15, 2003. The Staff computed the rate base reduction to be $27,790,000 on a total company basis by subtracting $7,500,000 from $35,290,000. The Company proposed to reduce rate base by the amount of installment payments to be made beginning in year two of the agreement.

<u>Adjustment Number 26 –</u> This adjustment was made to keep the cash working capital formula of one-eighth of O&M expenses on a pure per books basis by recognizing

corrections to the books. The one-eighth formula gives the Company 45 days of cash working capital. The 45 days is typical of an electric utility's billing and collection cycle. The formula approach provides a reasonable and unbiased estimate of the Company's cash working capital requirements. Also, the formula approach is justified in this case because it is simple to use and less costly than a lead lag study. The Staff's adjustment increases total company working capital by $62,000.

Adjustment Number 27 – The Staff made an adjustment to income taxes for interest synchronization. The Staff limited its interest deduction for income tax purposes to the amount associated with long-term debt based on the rate base, capital structure and embedded cost rates contained on Staff's Exhibit A-5. The adjustment will vary with changes in rate base, capital structure, and/or embedded cost of long-term debt rates. The Staff's adjustment lowers income tax expense by $1,239,000 on a total company basis.

Adjustment Number 28 – The Staff is proposing to eliminate O&M expenses considered to be non-allowable for ratemaking purposes. Such expenses include institutional and goodwill advertising, civic club dues, donations, service awards, employee newsletters, one-half of Chamber of Commerce dues and expenses, sponsorships, and other miscellaneous items that the Staff does not consider to be necessary for ratemaking purposes. The Staff's adjustment lowers O&M expenses by $761,805 on a total company basis. The retail amount was computed by the Utilities Department to be $729,000.

Adjustment Number 29 – In the Company's application for a rate increase, the tax effect associated with interest on customers' deposits was eliminated. The Staff proposes to lower income taxes for the effect of such interest deduction. The Staff's adjustment lowers income taxes by $447,096.

Adjustment Number 30 – The Staff is proposing to annualize interest on customer deposits. The Staff used the customer deposits balance of $15,654,918 times the Commission-approved interest rate of 8% to arrive at an annualized interest amount of $1,252,393. The per books balance of $1,168,879 was subtracted from the computed amount to arrive at Staff's adjustment of $83,514. The Staff increased interest on customer deposits in cost of service and customer deposits in rate base by an equal amount.

Adjustment Number 31 – The Staff is proposing to remove unclaimed funds from rate base in the amount of $3,000 on a total company basis. Unclaimed funds represent amounts owed to customers, unclaimed pay checks, unclaimed deposits, etc. The Staff recommends that such funds be treated as a form of cost free capital to the utility.

Adjustment Number 32 – The Company included materials and supplies of $156,725,000 in rate base representing the balance at the end of the test year. The Staff noticed that the amounts in the last three months of the test year were higher than the amounts in the first nine months of the test year. The Utilities Department was consulted and it was decided that an average balance for the test year should be used in this case. The Staff found the average balance in materials and supplies for the test year was $145,682,000. The adjustment lowered rate base by $11,043,000 on a total company basis.

Adjustment Number 33 – The Staff is proposing to allocate all of the storm damage reserve to the Company's retail operations. The storm damage reserve was approved by this Commission in Docket Number 95-1000-E, Order Number 96-15. Therefore, the Staff treated the fund as if it is entirely retail. The Staff's adjustment is a reduction to rate base of $264,000.

Adjustment Number 35 – The Staff proposes to remove the cash working capital component associated with Genco fuel from rate base. The Staff found that the bill from Genco to the Company for purchased power contains a cash working capital component. The Staff lowered the cash component of total working capital by $7,611,000 on a total company basis.

<u>Adjustment Number 36 –</u> The Staff proposes to deduct deferred environmental costs from rate base. Such costs were inadvertently added to rate base by the Company. Deferred environmental costs represent a form of cost free capital to the utility until they are used for their intended purposes. The Staff's adjustment lowers rate base by $191,000 on a total company basis.

<u>Adjustment Number 38 –</u> The Staff proposes to true-up the storm damage reserve to reflect the actual amount of the reserve at the end of the test period. The Staff's adjustment reduces rate base by $76,000.

<u>Adjustment Number 39 –</u> The Staff is proposing an adjustment to correct the per books balance associated with OPEB's at the end of the test year. The adjustment decreases rate base by $1,205,000 on a total company basis. The Company's unfunded OPEB liability is a form of cost free capital to the utility.

Q. MR. ELLISON, DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.